



CDIAC HOSTS 1st ANNUAL *TOOLS TO REVITALIZE CALIFORNIA COMMUNITIES* PROGRAM IN OAKLAND

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On September 25, 2002, at the Oakland Marriott City Center, the California Debt and Investment Advisory Commission (CDIAC) hosted its first annual *Tools to Revitalize California Communities* conference highlighting various state financing tools available to California communities to utilize for economic development purposes.

The *Tools to Revitalize California Communities* program is part of State Treasurer Phil Angelides' "Double Bottom Line" investment initiative, which focuses on achieving successful investment results while simultaneously broadening economic opportunity in California communities.

As featured in an article in the February 2002 issue of *DEBT LINE*, this program was designed to address the growing need for financing options for California communities. In the article entitled, "A Vision For California", CDIAC Executive Director, Lisa M. Harris announced a new series of educational courses to provide local government officials with tools that would assist them with community revitalization. The article further emphasized the need for this program based on statistics regarding California's deteriorating infrastructure and how it must be improved to support the dramatic increase in jobs, residents and school children in the years to come.

The new program series was kicked off with an Open House in the State Treasurer's Office Building with Treasurer Phil Angelides as guest speaker. In the following months, CDIAC began marketing the program holding panel-style presentations at annual conferences of organizations such as the California Association For Local Economic Development, the California State Association of County Auditors, the League of California Cities and *The Bond Buyer*. The programs highlighted a few of the loans, grants and private equity programs offered for specific purposes, including industrial development facilities, pollution control facilities and small business development.

To supplement these presentations, CDIAC featured articles in the *DEBT LINE* newsletter that included informa-

tion on specific topics related to this vision for California. Articles have included "Industrial Development Bond Financing" from the California Industrial Development Financing Advisory Commission, "The Extra Credit Home Purchase Program" from the State Treasurer's Office, and other articles that can be found on CDIAC's website www.treasurer.ca.gov/cdiac, as *Off Prints*.

All of these activities led up to the program on September 25th where CDIAC was pleased to be joined by over 350 participants and presenters for this very special program.

The day began with morning panel-style presentations that featured concurrent sessions on a myriad of topics. Participants had the opportunity during a three-hour period to partake on at least three formal panel presentations prepared by leading California finance leaders. Sessions included topics on Business and Job Creation Bond Financing Programs and Loan Programs for Small Businesses, Creating Affordable Health Care, California Affordable Housing Programs, Technical Assistance Programs for Brownfield Sites, Private Equity Investment Programs: Targeting Underserved Markets and Urban Real Estate Development and Financing Programs.

Photo 1 on page 3 provides a birds' eye view of one of the highly attended concurrent morning sessions on Urban Real Estate Development and Financing Programs. All of the morning sessions were well attended by local officials, economic development staff, non-profit organizations and private entities such as banks and venture capitalists. A typical panel session included descriptions of financing and loan programs, along with case studies and expert perspectives.

The morning session was followed by a luncheon program for all attendees and presenters and included a keynote address by Robert Bobb, City Manager of Oakland. Mr. Bobb's presentation *Tools in Action: City of Oakland's Experience* included a slide presentation on Oakland's economic growth and his insight on the city's experience in utilizing financing tools to revitalize an urban community.

Afternoon concurrent Roundtable Sessions began immediately following the luncheon and two tracks of Roundtable discussions ran for three hours. The Roundtable sessions were designed to provide conference participants with the opportunity to meet the professionals who had spoken in the morning sessions in a more informal setting and were comprised of the majority of the morning speakers in addition to several other economic development professionals. Photo 2 on page 3 reflects one of the Roundtable discussion sessions. The Roundtable discussions allowed participants to candidly ask the professionals direct questions related to specific projects. As several program evaluations stated, *"It's great to have all of the key staff contacts in one place!"*, and *"I enjoyed the additional specifics on the topics in addition to the presentations in the morning"*.

The day concluded with a reception at the top of the Marriott Center, which provided the perfect venue for attendees and participants to reflect on the day's events. In addition, Betsy Zeidman of the Milken Institute joined CDIAC for a few comments. Excerpts from her presentation can be found in this issue of *Off Prints* on page 4.

CDIAC was pleased to see the networking and partnerships that formed as a result of these sessions. As one attendee indicated, *"The afternoon allowed great potential for synergy with various players, among non-profit, state and other representatives. It is also interesting to see the relationship between the parties."* CDIAC is excited about the results of this program and looks forward to the 2nd Annual Tools To Revitalize California Communities, which will be held in Los Angeles in Fall 2003. CDIAC thanks all attendees of the program and a special thank you goes to our esteemed group of presenters who provide participants with valuable and pertinent information on both state and federal financing options for California communities. Our thanks go to:

Herb Aarons

CA Coastal Rural Development Corp.

Raul Amezcua

Salomon Smith Barney

Leonard Berry

The Chapman Company

Julia Bidwell

Orange Co/Housing & Community Development

Robert C. Bobb

City of Oakland

Julie Bornstein

Dept. of Housing and Community Development

Robert Brunswick

Buchanan Street Partners

James Buckley

Citizen Housing Corp.

Lewis Byrd

Opportunity Capital Partners III, LP

Fred Cooper

Community Development Financial Institute Funds

Thomas E. Darden

Reliant Equity Investors

Jeff Emanuels

CA Infrastructure and Economic Development Bank (CIEDB)

Elizabeth Ferguson

Bay Area Council

Carol Galante

Bridge Housing Corp.

Dinorah Hall

CA Main Street

James Hamill

California Statewide Communities Development Authority

Stanton Hazelroth

CA Infrastructure & Economic Development Bank

Evan C. Henry

Bank of America, Environmental Services Dept.

Carlton Jenkins

Yucaipa Companies

Joanie Jones-Kelly

CA Industrial Development Financing Advisory Commission (CIDFAC)

Bruce Kern

Economic Development Alliance for Business (EDAB)

Robert Klein

Klein Financial Corporation

Bill Lambert

City of Oakland

Lynette Lee

East Bay Asian Local Development Corp.

Victor MacFarlane

MacFarlane Partners, Inc.

Mike Mamot

Central Coast Neurobehavior Center Inc.

Joncarlo Mark

California Public Employees' Retirement System (CalPERS)

Arabella Martinez

The Unity Council

Art Martinez

Wells Fargo Bank

Mina Martinez

Nogales Investors, LLC

George McDaniels

Community Bank of the Bay

Delores A. McKinnon

CA Dept. of Insurance

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*CAL Mortgage Loan Insurance Div.,
OSHPD*

Karen Newquist
*California Pollution Control Financing
Authority*

Peter Nolan
Green Equity Investors

Mike Owen
CDC Small Business Finance

Phillip Palmer
Summit Bank
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CA Housing Finance Agency

Jeanne Peterson
*CA Tax Credit Allocation Committee
(CTCAC)*

Mark Quinn
SBA, San Francisco Region

Bill Reichert
Garage Technology Ventures

Larry Reid, Councilmember
City of Oakland

Edward R. Renwick
Yucaipa Companies

Steven Sachs
*Housing and Urban Development,
Community Planning Development*

Steve Sakurai
*CA Pollution Control Financing
Authority (CPCFA)*

Sanjiv K. Shah
Bank of America

Stephanie Shakofsky
CA Center for Land Recycling (CCLR)



Photo 1 Morning Panel Session

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CIM Group LLC

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Economic Development Administration

John Simonds
Small Business Administration

Sumi Sousa
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Isiah Turner
City of Richmond

Barbara Vohryzek
California Statewide CDC

R. Jeffrey Walden
Canyon Capital Partners

Arthur Washington
*Northern CA Financial Development
Corp.*

Laurie Weir
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(CDLAC)*

George Williamson
*CA Economic Development Lending
Initiative (CEDLI)*

Lee Winslett
Wells Fargo Bank

James Wright
*Wells Fargo Bank, Small Business
Marketing Communications Group*

Betsy Zeidman
The Milken Institute



Photo 2 Roundtable Discussion

**REMARKS BY BETSY ZEIDMAN AT
CDIAC'S "TOOLS TO REVITALIZE CALIFORNIA'S COMMUNITIES"
OAKLAND, CALIFORNIA SEPTEMBER 25, 2002**

Editor's Note: The following is an excerpt from Ms. Betsy Zeidman's remarks at a reception held at the *Tools to Revitalize California Communities Program* on September 25, 2002 in Oakland California. Ms. Zeidman is the Director of the Milken Institute's Center for Emerging Domestic Markets. The Center for Emerging Domestic Markets is a clearinghouse for information, a gathering place for education and a laboratory for market-based financial innovation and policy facilitating the flow of capital to emerging domestic markets. The Milken Institute is a Santa Monica based economic think tank which undertakes research and education on human, financial and social capital. Its mission is to improve the lives and economic conditions of diverse populations in the U.S. and around the world by helping business and public policy leaders identify and implement innovative ideas for creating broad-based prosperity.

In this age of daily attention to corporate crises, it can be easy to forget that small business is the major driver of job creation in the U.S. economy. 99.7 percent of all businesses are defined as "small," i.e., having less than 500 employees. 99.2 percent of California's businesses are small, of which 89 percent have less than 20 employees. These businesses account for 50 percent of private sector output, employ more than half of all private sector workers and create 75 percent of net new jobs each year.¹

Among small businesses, those owned by ethnic entrepreneurs are the fastest growing – multiplying at six times the rate of all businesses, and with revenues increasing twice as fast. This is not surprising given the rapidly diversifying America starkly illustrated by the 2000 census. The U.S. population of people of color is larger than all but six countries in the world, and nearly 90 percent of expected population growth in the next 50 years will come from these ethnic groups – in common, albeit misnamed, parlance – "minorities."² Last year, California became the first state in the U.S. in which less than half of its population was white, a feature that will be true for the country as a whole by mid-century.³

The human capital in these "emerging domestic markets" (EDM) is critical to the economic growth of the state and the country. In addition to representing most of the new entrepreneurs, people of color will account for 70 percent of workforce growth over the next 20 years.⁴ Record levels of largely Caucasian baby boomers will depend on these diverse workers to fund the pension funds supporting their retirement. Not financing EDM businesses is synonymous with not financing a significant portion of the economy. We cannot afford to do this.

¹ U.S. Small Business Administration (SBA) Office of Advocacy, 2001. *Small Business Economic Indicators, 2000*.

² Minority Business Development Agency, U.S. Department of Commerce, September 1999. *Minority Population Growth: 1995 to 2050*.

³ Derived from data from the U.S. Census Bureau, U.S. Department of Commerce.

⁴ Derived from data from the Bureau of Labor Statistics, U.S. Department of Labor and the U.S. Census Bureau, U.S. Department of Commerce.

Yet emerging domestic market firms face ongoing challenges in obtaining the capital necessary to grow. Several current trends pose challenges to small firms in general, such as:

- a slower economy which tightens credit and reduces its availability;
- the country's shift from a bank-based financial system to a securities-based system which demands access to a broader range of financial technologies than is widely available to many small firms;
- increased bank consolidation which tends to decrease banks' emphasis on individual lender/borrower relationships in making credit decisions (traditionally helpful to small businesses) and increases focus on standardized lending (which may penalize small businesses).

Data shows that emerging domestic market entrepreneurs have even greater difficulty than small businesses in general. They receive only a small percentage of private equity investments (generally due less to the viability of their business models than their lack of relationships with the private equity investors) and loans in minority areas and to minority firms are smaller than mainstream loans, even when controlling for financial equity, education, age and experience.

Much of the success in the economy at the end of the 20th century followed from the exceptional efficiency of the financial markets in supplying capital to entrepreneurs. It is important to apply that same efficiency toward directing capital to minority entrepreneurs. This requires addressing the information and data gaps regarding these markets, and adapting innovations that work in the mainstream sectors to the emerging domestic markets. Partnerships between government, business, and non-profit organizations can prove extremely successful at leveraging resources and expertise, and facilitating the flow of capital.

Financial innovations fall into three broad categories:

- *systemic innovations* – those that broadly affect the financial sector, such as securitization, corporation/bank/community lending partnerships, expanded receivable-based financing, and innovative intermediary structures providing credit enhancement or mezzanine financing;
- *innovative products* that better serve the market, such as the new products aimed at the Latino market recently introduced by several major banks, and new models for funding emerging businesses launched by such entities as CalPERS and CalSTRS (through their private equity programs targeted at underserved communities) and the Bay Area Council (though its Family of Funds addressing smart growth, environmental restoration and small businesses generating double bottom lines); and

- *new business processes*, such as networks to collect reliable data on EDM businesses, and credit scoring models applicable to entrepreneurs lacking traditional bank histories.

Among the most promising of these innovations would be increased securitization of small business loans, enabling new investors to enter the market by purchasing securities, and lenders to initiate new loans to new borrowers. By using innovative credit enhancement vehicles, such as foundation grants and government guarantees, seemingly riskier community development loans can be pooled and securitized.

Among the most critical of these innovations is the need to develop robust, reliable pools of data on EDM businesses and their loan performance. Government-business-foundation collaborations could significantly advance this effort.

California's record in championing innovation is unrivaled, and its set of tools for financing community development is extensive. Applying this expertise and spirit to forging innovative financing partnerships and public policy can dramatically impact the availability of capital to emerging domestic markets, and support the economic growth that will sustain all Californians.

This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at <http://www.treasurer.ca.gov/cdiac>.

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